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DEPARTMENT PASS TO TREASURY

CINCUSAFE, USDOCOSOUTH AND CINCEUR FOR POLADS

E.O. 11652: GDS

TAGS: PGOV, PINT, UK

SUBJECT: ANTICIPATED DIRECTIONS OF CALLAGHAN GOVERNMENT

REF: LONDON 5289

SUMMARY - THIS CABLE EXAMINES PRIME MINISTER CALLAGHAN AND THE CONSTRAINTS THAT ARE LIKELY TO APPLY DURING HIS INITIAL PERIOD IN OFFICE. OUR ANALYSIS SUGGESTS THAT HE WILL HAVE LITTLE ROOM TO MANUEVER AND THAT HIS CAPACITY TO IMPOSE SIGNIFICANT CHANGE ON CURRENT GOVERNMENT POLICIES AND PROGRAMS, SHOULD HE DESIRE TO DO SO, WILL BE SEVERELY LIMITED. END SUMMARY.

1. JAMES CALLAGHAN HAS BEEN A LEADING FIGURE IN THE LABOR PARTY AND GOVERNMENT FOR WELL OVER A DECADE. HE IS WELL AND VERY FAVORABLY KNOWN BY A GENERATION OF AMERICAN LEADERS AND IS EXTREMELY WELL-DISPOSED TO THE U.S. AND ITS POLICIES, THOUGH HE IS BY NO MEANS A SLAVISH FOLLOWER. HIS HUMBLE ORIGINS AND PUBLIC CAREER, SIMILARLY, ARE A MATTER OF RECORD, WHILE HIS PERCEIVED STRENGTHS AND WEAKNESSES HAVE BEEN COMMENTED UPON IN DETAIL. RATHER THAN PLOW WHAT IS NOW FAMILIAR GROUND, WE SHALL SPECULATE HOW, GIVEN HIS PERSONALITY AND PREVIOUS PERFORMANCE, HE IS LIKELY TO BE AFFECTED BY THE POLITICAL, ECONOMIC AND SOCIAL FACTORS AT PLAY IN THE UK, AND HOW THIS INTERPLAY MAY AFFECT THE POLICIES AND ACTIONS OF HIS GOVERNMENT. WHILE RECOGNIZING THAT THE INDIVIDUALS OCCUPYING CABINET AND SUB-CABINET POSTS INFLUENCE POLICIES AND THEIR IMPLEMENTATION, THE PRESENT RIGHT/MODERATE/LEFT BALANCE WITHIN THE LABOR GOVERNMENT IS LIKELY TO REMAIN SUBSTANTIALLY UNCHANGED. FOR ANALYTICAL PURPOSES WE HAVE BROKEN THIS DISCUSSION DOWN INTO SEVEN DISCRETE CATEGORIES: WHY HE WAS ELECTED; THE "SPECIAL RELATIONSHIP" WITH THE U.S.; LABOR PARTY POLITICS; THE ECONOMY; SOCIAL PROGRAMS; HOME AFFAIRS; AND INTER-CONFIDENTIAL

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NATIONAL RELATIONS.

2. HIS ELECTION - CALLAGHAN'S RELATIONSHIP WITH PREVIOUS PRIME MINISTER WILSON WAS SOMEWHAT AMBIGUOUS. DURING THE 1964-70 LABOR GOVERNMENT, THEIR RELATIONS WERE OFTEN PRICKLY AND UNEASY. WILSON REGARDED CALLAGHAN AS A THREAT TO HIS OWN POSITION, A PERCEPTION THAT WAS UNDERSCORED BY THE LATTER'S OBVIOUS AMBITION TO SUCCEED

WILSON. YET WHEN LABOR CAME TO POWER IN MARCH 1974, THE UNEASE WHICH HAD MARKED THEIR RELATIONS WAS REPLACED BY A COLLABORATIVE BOND WHICH OFTEN APPEARED TO BE A FULL BLOWN POLITICAL LOVE PACT. MANY OBSERVERS SUGGEST, AND WE ARE INCLINED TO ACCEPT, THAT FOLLOWING 1970 CALLAGHAN IRONICALLY CAME TO BELIEVE THAT HIS LEADERSHIP OPPORTUNITY HAD PASSED: THREE AND A HALF YEARS WILSON'S SENIOR, AND APPARENTLY STUCK WITH A LEADER WHO HAD NO INTENTION OF RELINQUISHING POWER, CALLAGHAN ACCEPTED THE POSITION AS SECOND FIDDLE TO A FREQUENTLY VIRTUOSO PERFORMER. THIS CHANGE WAS SENSED BY WILSON AND A RELATIONSHIP BASED ON MUTUAL TRUST AND RESPECT DEVELOPED. THERE IS REASON TO BELIEVE THAT CALLAGHAN WAS WILSON'S PREFERRED SUCCESSOR, THOUGH ANY OVERT MOVE TO ENDORSE HIM WOULD HAVE BEEN BITTERLY RESENTED BY THE PARLIAMENTARY LABOR PARTY AND ULTIMATELY COUNTERPRODUCTIVE.

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3. THE SPECIAL RELATIONSHIP - IN MARCH 1974 WILSON, WITH CALLAGHAN AS HIS FOREIGN SECRETARY, REVERSED THE PRO-EUROPEAN TILT OF THE PREVIOUS CONSERVATIVE GOVERNMENT AND LEANED SHARPLY WESTWARD TOWARD THE U.S. WHILE IT WOULD OVERSTATE THE CASE TO SUGGEST THAT CALLAGHAN WAS EXCLUSIVELY RESPONSIBLE FOR THIS RENEWAL OF THE SPECIAL RELATIONSHIP, WILSON COULD HAVE FOUND NO MORE ENTHUSIASTIC LIEUTENANT. CALLAGHAN IS AN OPEN AND UNABASHED FRIEND OF THE U.S. -- HE ONCE ASSERTED PUBLICLY THAT HE SANG "GOD BLESS AMERICA" EVERY MORNING ON ARISING -- AND CLEARLY BELIEVES THAT BRITAIN'S LINK WITH THE U.S. IS OF GREATER IMPORTANCE THAN THAT WITH EUROPE. EVER A PRAGMATIST, HE RECOGNIZES THAT BOTH ARE NECESSARY, BUT HIS PERSONAL PROCLIVITIES ARE UNAMBIGUOUS AND UNLIKELY TO CHANGE. HE ENJOYS ESPECIALLY CORDIAL RELATIONS WITH SECRETARY KISSINGER AND AMERICAN POLITICAL FIGURES SUCH AS HUBERT HUMPHREY, AND PLACES GREAT IMPORTANCE ON ANGLO-U.S. CONSULTATIONS. THE TONE AND STYLE OF THE SPECIAL RELATIONSHIP WILL, OF COURSE, BE AFFECTED BY CROSLAND'S ACCESSION TO THE FOREIGN SECRETARYSHIP, BUT ITS SUBSTANCE SEEMS GUARANTEED AS LONG AS CALLAGHAN REMAINS IN POWER AND WE CONTINUE TO STRESS THE IMPORTANCE WE ATTACH TO THIS LINKAGE.

4. LABOR PARTY POLITICS - CALLAGHAN ENJOYS A WELL-DE-

SERVED REPUTATION FOR HAVING POLITICAL SKILLS SECOND ONLY TO THOSE OF WILSON HIMSELF. IT IS ARGUABLE, MORE-OVER, THAT WHILE CALLAGHAN MAY LACK WILSON'S ADROITNESS AND ABILITY TO CONFOUND HIS ENEMIES, HIS ABILITY TO PERCEIVE THE POLITICALLY ACCEPTABLE IS EVEN BETTER DEVELOPED, WITNESS HIS EARLY OPPOSITION TO "IN PLACE OF STRIFE," A POLICY THAT MANY OBSERVERS BELIEVE WAS WILSON'S FATAL ERROR IN THE 1964-70 GOVERNMENT. CALLAGHAN ALSO POSSESSES A COMMON TOUCH WHICH WILSON LACKS; HIS RELATIONS WITH THE TRADE UNIONS, FROM WHICH HE SPRANG, ARE STRONGER AND CLOSER THAN WERE THOSE OF WILSON; AND HIS POLITICAL BASE WITHIN THE LABOR PARTY IS DEEPER AND

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WIDER (CALLAGHAN HAS BEEN PARTY TREASURER SINCE 1967 AND WAS PREVIOUSLY A CONSTITUENCY MEMBER OF THE NEC FOR MANY YEARS). HE LACKS WILSON'S INTELLECTUAL DEPTH, BUT IS A MORE ACCOMPLISHED INTEREST GROUP POLITICIAN. THESE ARE ALL QUALITIES THAT ARE LIKELY TO BE ESPECIALLY NEEDED BY THE PARTY OVER THE NEXT COUPLE OF YEARS. ON BALANCE, WE THINK CALLAGHAN MAY HAVE AN EASIER TIME HOLDING THE PARTY TOGETHER, BUT COULD HAVE GREATER DIFFICULTY IN ENTICING, TRICKING OR CAJOLING IT TO MOVE ALONG A CHOSEN PATH. OVER THE LONGER TERM THIS COULD PROVE TO BE CALLAGHAN'S GREATEST POLITICAL WEAKNESS.

5. THE ECONOMY - POSSESSING A SOUND APPRECIATION OF THE UNIONS AND THEIR IMPORTANCE, ACUTE POLITICAL ANTENNAE, EXPERIENCE AT TREASURY, AN UNDERSTANDING OF THE CURRENT IMPERATIVES, AND BASICALLY CONSERVATIVE INSTINCTS, NOT TO MENTION A HIGHLY ABLE CHANCELLOR, CALLAGHAN APPEARS WELL EQUIPPED TO DEAL WITH THE ECONOMY. THERE IS EVERY REASON TO BELIEVE THE CALLAGHAN/HEALEY/FOOT TROIKA IS JUST ABOUT THE BEST THAT COULD BE DEvised TO ADDRESS BRITAIN'S ECONOMIC/INDUSTRIAL PROBLEMS. IT IS NOT, HOWEVER, WITHOUT WEAKNESS. PERHAPS THE GREATEST QUESTION MARK HANGS OVER CALLAGHAN'S ABILITY TO WITHSTAND PRESSURE. SOME CLOSE-UP OBSERVERS -- NOTABLY GEORGE WIGG AND RICHARD CROSSMAN -- HAVE SEVERELY CRITICISED HIS PERFORMANCE WHILE CHANCELLOR (1964-67), SUGGESTING THAT HE FAILED TO GRASP THE BRIEF, WAS FLUSTERED AND PETULANT IN THE CRUNCH, AND FAILED TO STAND UP TO THE CIVIL SERVICE.

6. WHILE PERHAPS NOT UNFAIR, THESE VIEWS DO NOT TELL THE ENTIRE STORY. FIRST, CALLAGHAN WAS AT THAT TIME OPENLY AMBITIOUS AND REGARDED THE TREASURY BOTH AN OPPORTUNITY AND A PITFALL ON THE ROAD TO THE PARTY LEADERSHIP. HIS RECOGNITION OF HIS INTELLECTUAL LIMITATIONS NO DOUBT ADDED TO HIS INSECURITY. SECOND, HE SHOWED

CONSIDERABLE POLITICAL COURAGE IN DISREGARDING WILSON'S
EXPLICIT INSTRUCTIONS BY SECRETLY PREPARING CONTINGENCY
PLANS FOR THE INEVITABLE DEVALUATION WILSON WAS SO DE-
TERMINED TO AVOID. FINALLY, CALLAGHAN WAS A FORCEFUL
AND EFFECTIVE ADVOCATE OF THE TREASURY POSITION IN CA-
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BINET AND COMMONS. AS TO INDUSTRIAL AND ENERGY POLICY,
WE DOUBT THAT CALLAGHAN WILL SEEK TO CHANGE CURRENT DI-
RECTIONS. HE HAS NO IDEOLOGICAL HANG-UP ABOUT STATE
OWNERSHIP, AND IN THE PAST HAS CONSISTENTLY OPTED FOR
THE MODERATE POSITION ON THIS QUESTION. GIVEN HIS NA-

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TURAL CONSERVATISM AND PRAGMATISM, WE WOULD ANTICIPATE HE WILL GO SLOWLY AND DO ONLY WHAT MAY BE POLITICALLY NECESSARY, AND THAT'S NOT LIKELY TO BE MUCH. REGARDING TRADE, CALLAGHAN MIGHT WELL SUPPORT SOME SELECTIVE, SHORT-TERM IMPORT CONTROLS, AS WERE SUGGESTED BY CHANCELLOR HEALEY IN HIS RECENT BUDGET MESSAGE. SUCH ACTION, OF COURSE, WOULD BE DESIGNED AT LEAST IN PART TO EASE THE NEXT ROUND OF WAGE RESTRAINT NEGOTIATIONS WITH THE UNIONS. HIS STRONG DESIRE TO RETAIN GOOD RELATIONS WITH THE U.S., HOWEVER, WOULD APPEAR TO ENHANCE OUR POSSIBLE INFLUENCE ON THIS ISSUE, SHOULD IT ARISE. FOOT, INCIDENTALLY, IS COOL TOWARD IMPORT CONTROLS. ON BALANCE WE ARE INCLINED TO BE OPTIMISTIC ABOUT THE CALLAGHAN TROIKA'S DESIRE TO DIRECT BRITAIN'S ECONOMY ALONG THE PATH ALREADY DEFINED, RECOGNIZING THAT IT MAY NOT BE POSSIBLE TO ACHIEVE THE KIND OF MIRACLE NEEDED TO REVERSE PERMANENTLY THE LONG-TERM TREND.

6. SOCIAL PROGRAMS - FROM HIS INITIAL STATEMENTS AND PREVIOUS TENDENCIES, OUR GUESS IS THAT CALLAGHAN WOULD PREFER TO PLACE HIS OWN STAMP ON HIS GOVERNMENT'S SOCIAL PROGRAMS MORE THAN ANYWHERE ELSE. SUCH A PRIORITY WOULD BE CONSISTENT WITH HIS ORIGINS, THE "SOCIAL CONTRACT" AND, SINCE HE IS ABOVE ALL A POLITICAL ANIMAL, BE POPULAR WITH THE LABOR PARTY AND ELECTORATE. YET ECONOMIC CIRCUMSTANCES WILL CONSTRAIN HIS FREEDOM OF ACTION. WITH HIS MANUEVERING ROOM RESTRICTED, HE IS LIKELY TO

SEEK ADMINISTRATIVE INNOVATION RATHER THAN NEW PROGRAMS. THERE WILL, HOWEVER, BE A TEMPTATION TO ALTER THE GOVERNMENT'S INVESTMENT PRIORITIES, WITH DEFENSE THE ONLY AVAILABLE TARGET FROM WHICH RESOURCES COULD BE REALLOCATED. DESPITE HIS OWN STRONG COMMITMENT TO THE WESTERN ALLIANCE, CALLAGHAN COULD FIND WILLING ALLIES -- HEALEY AND TONY CROSLAND AMONG THEM -- SHOULD HE DECIDE FOR DOMESTIC POLITICAL REASONS TO MOVE IN THIS DIRECTION. HERE AGAIN, HOWEVER, THE IMPORTANCE HE ATTACHES TO THE SPECIAL RELATIONSHIP WOULD BE A POWERFUL CONSTRAINT. THE OUTLOOK, THEN, IS FOR A CONCERTED EFFORT TO DEVISE
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NEW APPROACHES, RATHER THAN NEW PROGRAMS.

7. HOME AFFAIRS - OF DECREASING POLITICAL IMPORTANCE IN RECENT YEARS, HOME AFFAIRS SEEM UNLIKELY TO OCCUPY A MAJOR PART OF CALLAGHAN'S ATTENTION AS PRIME MINISTER. WHILE CALLAGHAN AS HOME SECRETARY DID OBTAIN PASSAGE OF PROGRESSIVE RACE RELATIONS LEGISLATION, HIS BASIC APPROACH TO HIS RESPONSIBILITIES WAS CONSERVATIVE -- STRONG SUPPORT FOR THE POLICE, RESTRICTIVE IMMIGRATION LAWS, SUPPORT FOR STATUS QUO IN CIVIL LIBERTIES, AND TOUGH DRUG LAWS WERE HIS HALLMARK. CALLAGHAN IS NO PARTISAN OF DEVOLUTION, BUT HIS PRAGMATISM AND POLITICAL SENSITIVITY ARE AGAIN EXPECTED TO PREVAIL. HE WILL FULFILL LABOR'S COMMITMENT AND ACCEDE TO THE DEVOLUTION OF A GREATER MEASURE OF POWER FOR SCOTLAND THAN WAS INITIALLY PROPOSED, BUT WITH TREPIDATION. COMING FROM WALES, HE MAY ALSO DRAG HIS FEET WHEN IT COMES TO DEVOLUTION FOR THAT PROVINCE WHERE THE POLITICAL IMPERATIVES ARE LESS ACUTE. CALLAGHAN IS GENERALLY CREDITED WITH MASTERFUL HANDLING OF THE NORTHERN IRELAND PROBLEM AS HOME SECRETARY IN 1969-70, AND MAY SEEK A PERSONAL ROLE IN ATTEMPTING TO RESOLVE THE PROBLEMS OF THAT PROVINCE. NOV, HOWEVER, IS A TIME FOR WAITING IN NI, SO NO IMMEDIATE INITIATIVES SHOULD BE EXPECTED. THE POLITICAL REALITIES OF THAT PROVINCE, MOREOVER, DRASTICALLY LIMIT THE GO-

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VERNMENT'S FLEXIBILITY AND PROSPECTS FOR SUCCESS.

8. INTERNATIONAL AFFAIRS - CALLAGHAN'S COMMITMENT TO EUROPE IS WHOLELY PRAGMATIC, UNLIKE THE SOMEWHAT ROMANTIC, VISIONARY ATTACHMENT MANIFESTED BY JENKINS AND SOME OTHER EUROPEANISTS. IT IS BASED PURELY ON HIS READING OF UK INTERESTS, AND THIS PERCEPTION, HIS NATURAL INCLINATIONS AND THE MOOD OF THE LABOR PARTY ALL DIRECT HIM MORE TOWARD WASHINGTON THAN BRUSSELS. THESE SAME FACTORS WILL OPERATE IN OTHER AREAS AS WELL. HE IS FIRMLY IN OUR CAMP AS REGARDS EAST/WEST RELATIONS. IN THE MIDDLE EAST WE ARE CONFIDENT THAT THE CALLAGHAN GOVERNMENT WILL BE HAPPY TO CONTINUE PLAYING A SUPPORTIVE ROLE. IN THE LESS VITAL AFRICAN SPHERE, WHERE LABOR PARTY EMOTIONS RUN HIGH AND HMG'S ABILITY TO INFLUENCE EVENTS IS LIMITED, HE MAY BE FORCED TO STAKE OUT POSITIONS SEPARATE FROM OURS. THE PATTERN MAY BE REPEATED IN SPECIAL CASES ELSEWHERE, SUCH AS SPAIN AND CHILE. BRITAIN'S PERFORMANCE IN INTERNATIONAL FORA WILL CONTINUE TO BE MARKED BY A BLEND OF CLOSE CONSULTATION AND COORDINATION WITH THE US AND BROKERAGE BETWEEN THE US AND OTHERS. TO SUMMARIZE, CALLAGHAN'S GOVERNMENT, WHILE HAVING A NEW HELMSMAN, WILL STAY FIRMLY ON ITS PRESENT COURSE.

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